

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05 H-01
L-03 NSC-05 PA-01 PRS-01 SS-15 /086 W
-----068925 031921Z /43

R 021754Z SEP 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 1591
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L MADRID 6553

USEEC AND EMBASSY
USOECN AND EMBASSY

3. O. 11652: GDS
TAGS: PINT, ECON, EFIN, SP
SUBJ: PROGRESS IN IMPLEMENTING ECONOMIC PROGRAM

REF: MADRID 6255 AND 6429

1. IN DISCUSSION WITH NEW UNDERSECRETARY OF FOREIGN
COMMERCE CARLOS BUSTELO DURING SEPTEMBER 1 COURTESY
CALL BY DCM AND EMBOFF, BUSTELO EXPRESSED SOME CON-
FIDENCE GOVERNMENT WILL ACHIEVE LABOR AGREEMENT TO
WAGE RESTRAINT ALTHOUGH HE THOUGHT AGREEMENT WOULD
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BE TACIT RATHER THAN EXPLICIT. HE ALSO PROVIDED MORE
SPECIFICS ON TACTICAL APPROACH OF GOS IN ITS ONGOING
DISCUSSION WITH UNION LEADERS. (A SECOND MEETING WITH
UNIONS LEADERS WAS HELD SEPT. 1.)

2. BUSTELO, WHO IS PARTICIPATING IN DISCUSSIONS WITH
LABOR AND MANAGEMENT GROUPS, SEEMS MORE OPTIMISTIC

THAN SECRETARY OF STATE FOR ECONOMICS MINISTRY RENDUELES WAS IN HIS RECENT CONVERSATION WITH EMBASSY OFFICERS THAT THE GOVERNMENT WILL EVENTUALLY BE SUCCESSFUL IN ACHIEVING TACIT AGREEMENT OF LABOR LEADERS TO MORE MODERATE WAGE DEMANDS (MADRID 6429). HE SAID THAT GOS WAS PRESENTING UNION LEADERSHIP WITH ALTERNATE SCENARIOS WHICH DEMONSTRATE DEGREE TO WHICH GOVERNMENT WOULD HAVE TO APPLY MORE RESTRICTIVE MONETARY POLICY TO MODERATE INFLATION IF WAGE RESTRAINT NOT FORTHCOMING, WITH RESULTING ADVERSE EFFECT ON EMPLOYMENT FROM RAPID AND SEVERE RESTRICTION OF MONEY SUPPLY. HE, AS WAS RENDUELES, IS IMPRESSED WITH THE TECHNICAL KNOWLEDGE OF LABOR REPRESENTATIVES. AT THE SAME TIME, BUSTELO DID NOT UNDERESTIMATE DIFFICULTIES IN UNION LEADERSHIP AGREEING TO OR BEING ABLE TO ENFORCE WAGE RESTRAINT WHEN THEY ARE IN PROCESS OF ORGANIZING AND ARE LOOKING FORWARD TO PLANT ELECTIONS THIS FALL. NOR WAS HE SURE HOW LONG THE GOVERNMENT WOULD STICK TO ITS GAME PLAN UNDER PRESSURE.

3. REGARDING BALANCE OF PAYMENTS, BUSTELO SAID GOVERNMENT ESTIMATES SHOW THERE WILL BE SOME IMPROVEMENT IN CURRENT ACCOUNT DEFICIT THIS YEAR, LARGELY BECAUSE OF STRONG EXPORT PERFORMANCE. EXPORT GROWTH HAS BEEN PARTICULARLY GOOD FOR AGRICULTURAL PRODUCTS AND FOR MOTOR VEHICLES (ESPECIALLY FORD BUT ALSO SEAT), AND
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SPAIN IS MAKING ADDITIONAL GAINS IN EXPORTING A WHOLE RANGE OF PRODUCTS FOR WHICH DEPRESSED STATE OF SPANISH ECONOMY HAS REDUCED DOMESTIC DEMAND. FOR EXAMPLE, SPAIN IS NOW RUNNING A TRADE SURPLUS WITH FRANCE FOR PROBABLY FIRST TIME IN HISTORY - A DEVELOPMENT WHICH FRENCH AUTHORITIES LOOK UPON WITH DISPLEASURE. AS A RESULT OF IMPROVEMENT IN TRADE AND CURRENT ACCOUNTS, BUSTELO SAID SPAIN WILL PROBABLY NOT NEED TO SEEK ANOTHER "JUMBO" PRIVATE LOAN DURING 1977; AND MAY NOT NEED TO DRAW ON THE IMF REGULAR FACILITIES THIS YEAR. THERE SHOULD BE FURTHER IMPROVEMENT IN BALANCE OF PAYMENTS NEXT YEAR IF SPAIN IS SUCCESSFUL IN REDUCING RATE OF INFLATION. CONTROL OF INFLATION IS THE KEY; WITH THAT SPAIN COULD BECOME A DYNAMIC EXPORT NATION HE THOUGHT. EXTERNAL FACTORS WILL HAVE AN EFFECT, HOWEVER, AND HE EXPRESSED CONCERN OVER FALL OFF IN GROWTH AMONG OECD COUNTRIES AND FAILURE OF GERMANY AND JAPAN TO FOLLOW U.S. EXAMPLE BY REFLATING ECONOMIES AND RUNNING DEFICITS.

4. COMMENT. THE EMBASSY'S FORECAST OF SPAIN'S BALANCE OF PAYMENTS FOR 1977 BEARS OUT GOS ESTIMATE

THAT THERE WILL BE SOME REDUCTION OF LAST YEAR'S
\$4.2 BILLION DEFICIT ON CURRENT ACCOUNT (MADRID A-103,
JULY 5, 1977). IN ADDITION TO STRONG GROWTH IN EX-
PORTS, IMPORTS ARE INCREASING MORE MODERATELY DUE TO
LACK OF DYNAMISM IN INDUSTRIAL PRODUCTION AND TO
MODERATION IN GROWTH OF OIL BILL BECAUSE OF HIGHER
HYDRO-ELECTRIC PRODUCTION. UNDERSECRETARY BUSTELO,
LIKE OTHER MEMBERS OF GOVERNMENT'S NEW ECONOMIC TEAM
WITH WHOM WE HAVE HAD DISCUSSIONS THUS FAR, IS IM-
PRESSIVELY WELL PREPARED FOR HIS JOB. HE SPENT
SEVERAL YEARS IN WASHINGTON AS SPAIN'S EXECUTIVE
DIRECTOR TO THE IMF AND IS PERSONALLY FAMILIAR WITH
REQUIREMENTS TO OBTAIN SUPPORT FROM INTERNATIONAL
INSTITUTIONS AND FROM THE PRIVATE BANKING SECTOR.EATON
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Message Attributes

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